



SMALL BANK

Comptroller of the Currency
Administrator of National Banks

PUBLIC DISCLOSURE

December 02, 2002

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**The Roberts County National Bank Of Sisseton
Charter Number 6185**

**5 East Maple Street
Sisseton, SD 57262**

**Office of Comptroller of the Currency
North Dakota & NW Minnesota
3211 Fiechtner Drive, SW
Fargo, ND 58103**

NOTE: This document is an evaluation of this institution's record of meeting the credit needs of its entire community, including low- and moderate-income neighborhoods consistent with safe and sound operation of the institution. This evaluation is not, nor should it be construed as, an assessment of the financial condition of this institution. The rating assigned to this institution does not represent an analysis, conclusion, or opinion of the federal financial supervisory agency concerning the safety and soundness of this financial institution.

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INSTITUTION'S CRA RATING

This institution is rated Needs to Improve.

- The bank's loan-to-deposit ratio (LTD) does not meet the standard for satisfactory performance. The LTD ratio is low and less than reasonable given the bank's size, financial condition, and lending opportunities within its assessment area (AA). The LTD ratio is low in comparison with other local financial institutions. Community contacts specifically mention the bank's traditionally conservative lending policies as a barrier for individuals approaching the bank for credit.
- The bank's record of lending to individuals of different income levels and to agricultural borrowers of different sizes meets the standard for satisfactory performance.
- The bank's geographic distribution of loans throughout its AA meets the standard for satisfactory performance.
- The bank's lending in its AA meets the standard for satisfactory performance. A majority of the bank's loans are made within the AA.

DESCRIPTION OF INSTITUTION

Roberts County National Bank of Sisseton (RCNB) is located in the city of Sisseton in Roberts County in Northeastern South Dakota. RCNB does not have any branches. It has one deposit taking ATM, located in Sisseton. RCNB's assets total \$42 million as of September 30, 2002. RCN Holding Company, Incorporated, a one-bank holding company, owns 100% of the bank. The holding company is located in Sisseton, South Dakota and has \$45 million in total assets. There have been no acquisitions or mergers since the previous CRA evaluation. The bank has one affiliate, Powell, Kouba, & Torness Insurance Agency, Incorporated.

The bank is conservative in its business strategy and lending philosophy. RCNB offers traditional banking products and focuses its lending primarily on agriculture and, to a lesser extent, real estate and consumer loans. Net loans represent 23% of total bank assets. Tier One Leverage Capital for the bank is 20.26% of average assets, or \$8.4 million.

Loan Portfolio Composition XX/YY	\$ (000)	%
Agricultural Loans	5,053	51.4%
Residential Real Estate Loans	2,337	23.8%
Consumer Loans	1,170	11.9%
Commercial Loans	572	5.8%
Municipal	693	7.1%
Net Loans	9,826	100%

Table data from September 30, 2002 Call Report

There are no legal impediments that would restrict the bank's ability to meet the credit needs of

the community. The evaluation period for the Performance Evaluation is from September 28, 1999 to December 2, 2002. The most recent CRA rating was “Needs to Improve”, dated September 27, 1999.

DESCRIPTION OF RCNB’s ASSESSMENT AREA

RCNB’s AA is comprised of all of Roberts County in Northeastern South Dakota. The AA is not located within a MSA. The AA includes four block-numbering areas (BNAs), three are middle-income and one is moderate-income. The AA contains no low-income or upper-income BNAs.

The AA includes only whole BNAs that are contiguous. The AA meets the requirements of the regulation. The AA does not arbitrarily exclude low- or moderate-income geographies. Larger cities included in the AA are Sisseton and Summit.

The bank’s AA is dependent on agricultural operations. Employment opportunities outside of the agricultural industry include; small manufacturing, the school district, and local health care providers. The number of households living below the poverty level is high, at 23.7% of total households. The statewide median income for 2001 is \$43,400.

The bank’s competitors include two bank branches of large financial institutions located in Sisseton and two credit unions also located in Sisseton. Other competition includes seven similarly sized community banks operating in, or bordering RCNB’s AA.

During our evaluation we contacted local community organizations to better understand the AA demographics and to determine the primary credit needs of the AA. We also relied on previous community contacts made by this agency and other governmental agencies. The top credit needs of the AA include agriculture and consumer lending.

The demographics of the AA are illustrated in the table below. The information is based on 1990 census data unless otherwise noted. This is the most recent information available during our evaluation.

DEMOGRAPHIC AND ECONOMIC CHARACTERISTICS OF AA	
<i>Population</i>	
Population	9,914
Number of Families	2,616
Number of Households	3,651
Number of Low-Income Families	688
% of Low-Income Families	26.30%
Number of Moderate-Income Families	483
% of Moderate-Income Families	18.46%
Number of Middle-Income Families	726
% of Middle-Income Families	27.75%
Number of Upper-Income Families	719
% of Upper-Income Families	27.48%
% Minority Population	23.46%
<i>Geographies</i>	
Number of Census Tracts/BNA	4
% Low-Income Census Tracts/BNA	0%
% Moderate-Income Census Tracts/BNA	25%
% Middle-Income Census Tracts/BNA	75%
% Upper-Income Census Tracts/BNA	0%
<i>Median Family Income (MFI)</i>	
1990 MFI for AA	\$25,547
2001 HUD-Adjusted MFI	\$43,400
<i>Economic Indicators</i>	
Unemployment Rate	2.60%
Owner-Occupied Housing	50.89%
Median Housing Value	\$25,484
% of Households Below Poverty Level	23.69%

Loan Sampling

The bank's primary loan types were determined by taking all loans originated/purchased during the time period from September 27, 1999 to October 31, 2002. The following table depicts the number and volume of loans made.

Loan Products	#	%	\$ (000)	%
Agricultural Loans	408	32.9%	6,159	49.1%
Commercial Loans	33	2.7%	464	5.8%
Consumer Loans	734	59.2%	2,457	19.6%
Municipal	1	.1%	338	2.7%
Residential Real Estate Loans	63	5.1%	3,129	24.9%
Total	1,239	100%	12,547	100%

For the purpose of this evaluation, the primary loan types are agricultural loans and consumer loans. Agricultural loans account for nearly 33% of the number of loans originated and 49.1% of the volume of loans. Consumer loans total 59.2% of the number of loans and 19.6% of the volume of loans. Residential real estate loans were not selected as a primary loan type due to the

limited number of loans made. Agricultural and consumer loans closely mirror the community credit needs as identified by the community contacts.

To conduct our analysis, we selected a sample of twenty agricultural and twenty consumer loans made since the year 2000. Statistically valid sampling techniques were used to select the sample. The twenty agricultural loans totaled \$567,875. The twenty consumer loans totaled \$109,540. After initial sampling to determine the bank's lending within the AA, additional files were selected so that all loans in the sample were made within the RCNB's AA.

CONCLUSIONS ABOUT PERFORMANCE CRITERIA

Loan-to-Deposit Ratio Analysis

The bank's LTD ratio does not meet the standard for satisfactory performance. The LTD ratio is low given the bank's size, financial condition, and lending opportunities within in its AA. The quarterly LTD ratio has averaged 29.94% in the thirteen quarters since our previous CRA examination on September 27, 1999. During this period the LTD ratio has decreased slightly from 30.6% on September 30, 1999 to 28.9% on September 30, 2002.

Comparisons to fourteen community banks located within 50 miles of Sisseton indicate that the LTD ratio is low. These banks have similar asset sizes, ranging from \$11 to \$69 million. These fourteen banks had average LTD ratios ranging from 39% to 93%. Ten of the fourteen banks had LTD ratios above 60%.

The low LTD ratio is the result of a conservative lending philosophy that has been in place for many years. Community contacts specifically mention RCNB as being a conservative bank where it is difficult to get credit.

One external factor contributing to the low LTD is the fact that during the 1980's, several area banks and thrifts were failing and deposit customers of these troubled institutions moved their deposit accounts to RCNB. RCNB saw a large increase in its core deposits; many of these deposits customers are still with the bank today.

Distribution of Credit within the Assessment Area by Borrower Income

Lending to borrowers of different incomes and to farms of different sizes meets the standard for satisfactory performance.

Agricultural Loans

RCNB's lending to farms of different sizes is good. Lending to farms with revenues under \$1 million exceeds the demographics of the AA. All of the farm loans sampled were to farms with revenues under \$1 million. The following table illustrates RCNB's lending to farms.

BORROWER DISTRIBUTION OF SMALL LOANS TO FARMS		
Farm Revenues	≤\$1,000,000	>\$1,000,000
% of AA FARMS	98.46%	1.54%
% of Bank Loans in AA #	100%	0%
% of Bank Loans in AA \$	100%	0%

Consumer Loans

Consumer lending to low- and moderate-income borrowers is adequate. The number of loans made to low-income borrowers is near to the demographics of the AA. The dollar volume of loans made to low-income borrowers exceeds the demographics of the AA. The number of loans made to moderate-income borrowers meets the demographics of the AA. The dollar volume of loans made to moderate-income borrowers is below the demographics of the AA.

The analysis of consumer loan borrower distribution was difficult because income data is not collected on all loans. Our sample of 20 loans included only 10 loans in which income data was collected. The borrower distribution of consumer loans is detailed in the following table.

CONSUMER LOAN BORROWER DISTRIBUTION										
Borrower Income Level	LOW		MODERATE		MIDDLE		UPPER		Not Applicable	
% of AA Households	27.8%		20.3%		19.1%		32.8%			
Sample Loans	% of Number	% of Amount	% of Number	% of Amount						
20	25%	50%	20%	7.6%	5%	1.2%	0	0	50%	41.2%

Geographic Distribution of Loans

RCNB's geographic distribution of loans throughout its AA meets the standard for satisfactory performance.

Agricultural Loans

The geographic distribution of farm loans is good. The percentage by number and dollar volume of farm loans in the moderate-income area exceeds the portion of farms within that geography. The following table depicts the bank's performance.

FARM LOANS								
Block Numbering Area Income Level	LOW		MODERATE		MIDDLE		UPPER	
% of AA Farms	NA		8.5%		91.5%		NA	
LOANS	% of Number	% of Amount						
	NA	NA	35%	31.9%	65%	68.1%	NA	NA

Consumer Loans

The geographic distribution of consumer loans is adequate. The portion of consumer loans made in the moderate-income geography is below the portion of households located in that geography. The table below illustrates the bank's performance.

CONSUMER LOANS								
Census Tract Income Level	LOW		MODERATE		MIDDLE		UPPER	
% of AA Households	NA		27.4%		75.3%		NA	
LOANS	% of Number	% of Amount						
	NA	NA	20%	5.1%	80%	94.9%	NA	NA

Comparison of Credit Extended Inside and Outside the Assessment Area

Lending within the AA meets the standard for satisfactory performance. A majority of loans are originated within the AA. We used both our sample of agricultural and consumer loans and the bank's internal reports to assess the bank's lending in the AA. The following table illustrates lending activity within the AA during the evaluation period.

TOTAL LOANS REVIEWED								
LOAN TYPE	IN ASSESSMENT AREA				OUT OF ASSESSMENT AREA			
	#	%	\$ (000s)	%	#	%	\$ (000s)	%
Agriculture Loans (Sample)	16	80%	508,115	92.97%	4	20%	38,500	7.03%
Consumer Loans (Sample)	19	95%	109,025	84.31%	1	5%	20,288	15.69%
* Bank Reports All Loans	479	78.01%	6,687,000	80.85%	135	21.99%	1,584,000	19.15%

* All loans originated between 9/27/99 and 10/4/02 with an outstanding balance on 10/4/02

Other Lending Activity

RCNB originated one community development loan during the evaluation period. RCNB purchased a participation in a loan that helped move a manufacturing company to Sisseton. The loan originated on February 6, 2001 for \$100,000. The current balance of the loan is \$97,585. The loan was made in-conjunction with the Sisseton Economic Development Corporation. The manufacturing company is a small business and the loan led to the employment of 50 to 60 low- and moderate-income individuals.

Responses to Complaints

RCNB has not received any CRA related complaints during the evaluation period.

Fair Lending Review

An analysis of public comments and consumer complaint information over the evaluation period was performed according to the OCC's risk based fair lending approach. Based on its analysis of the information, the OCC decided that a comprehensive fair lending examination would not need to be conducted in connection with the CRA evaluation this year.